

Testimony Regarding S.B. 268:

AN ACT ESTABLISHING A WORKING GROUP TO DISCUSS STATE BUDGET PROJECTIONS, TRENDS, AREAS OF GROWTH AND OPPORTUNITIES FOR EFFICIENCY, FEDERAL BUDGET ACTIVITY AND SPENDING CONTROL OPTIONS AND DEVELOP RECOMMENDATIONS RELATED THERETO

Nicholas Defiesta
Appropriations Committee
March 12, 2016

Senator Bye, Representative Walker, and distinguished members of the Committee:

Thank you for the opportunity to testify. I speak today on behalf of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to advance opportunity for Connecticut's children and families.

Connecticut Voices for Children testifies in support of S.B. 268 and offers recommendations for the working group established by the bill to consider. Specifically, we recommend the working group:

1. Consider how the state is investing in programs and services that provide for the wellbeing of children and families, and how that investment has changed over time;
2. Examine the revenue lost to tax expenditures — totaling over \$6.4 billion in Fiscal Year (FY) 2017 — and consider possible remedies; and
3. Adopt a budget framework of equity — that is, in a time of need, the state budget should aim first to help the most vulnerable among us.

In addition, we encourage the committee to create a balance of expertise on the working group that cuts across sectors, ideologies, and backgrounds, so that the recommendations of the group reflect the consensus of a broad range of knowledge and experience.

Connecticut Voices for Children recommends the following regarding S.B. 268:

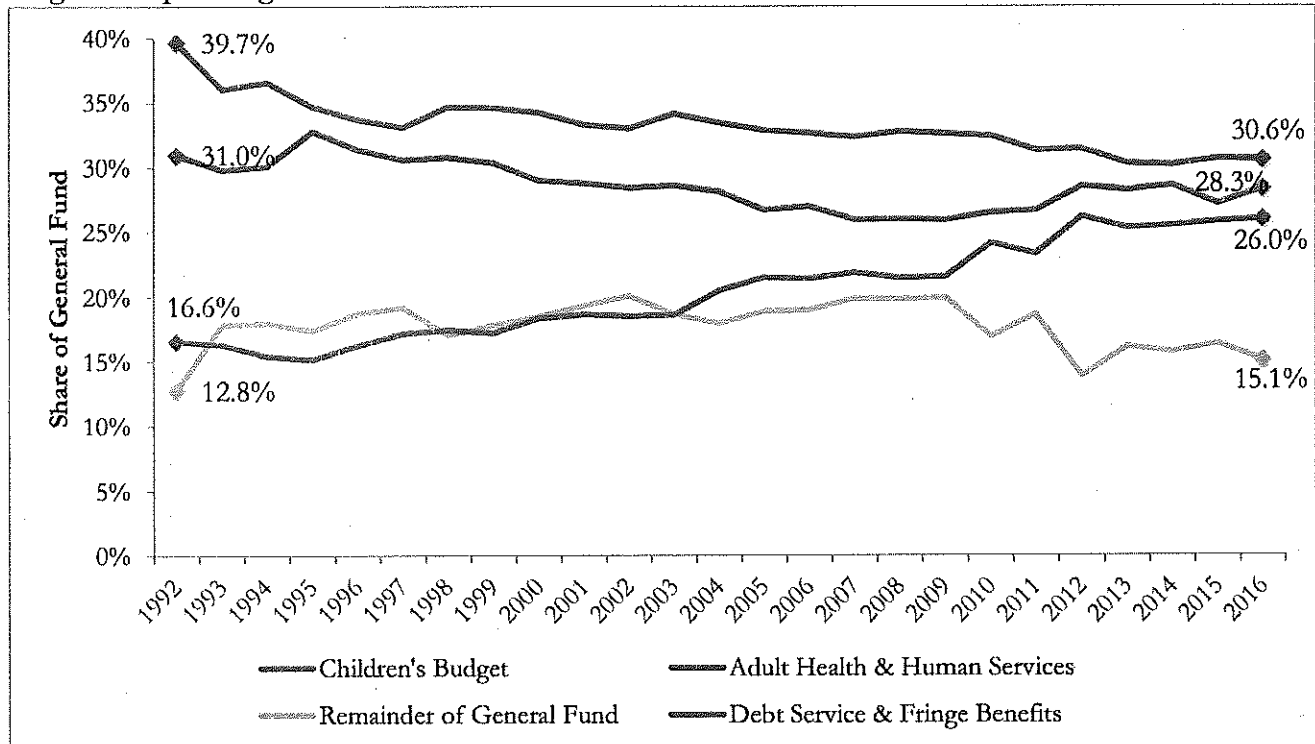
First, we recommend the working group consider how the state is investing in programs and services that provide for the wellbeing of children and families, and how that investment has changed over time. Our budget represents our collective priorities. The success of the next generation requires our help ensuring they will grow up healthy, educated, and ready to be our future parents, leaders, and workers. As such, state support for schools, child health, and other programs that help our children succeed is critical.

To track this spending, Connecticut Voices for Children constructed the “Children’s Budget” — a compilation of all major state investments in children and families, including K-12 education, child welfare, early care, and family health. The Children’s Budget allows us to assess appropriations over time to determine if the state has

met its responsibility to the next generation, and compare changes in the Children's Budget to those in other areas.¹

The trend over the long-term does not bode well. Figure 1 below examines changes in the Children's Budget and other budget categories as a share of the General Fund since FY 1992, when spending on programs that support children totaled nearly 40 percent of the General Fund. By FY 2016, the Children's Budget had shrunk to barely 30 percent. Note that while spending on all of these areas increased over this time period, the Children's Budget measures how these categories have grown or shrunk as a portion of the General Fund.

Figure 1: Spending on Children and Families has Shrunk as a Share of the General Fund



Source: Connecticut Voices analysis of Office of Fiscal Analysis budget books

In order to ensure that Connecticut is properly investing in its next generation, it is crucial that the working group assess how the state is supporting children and families.

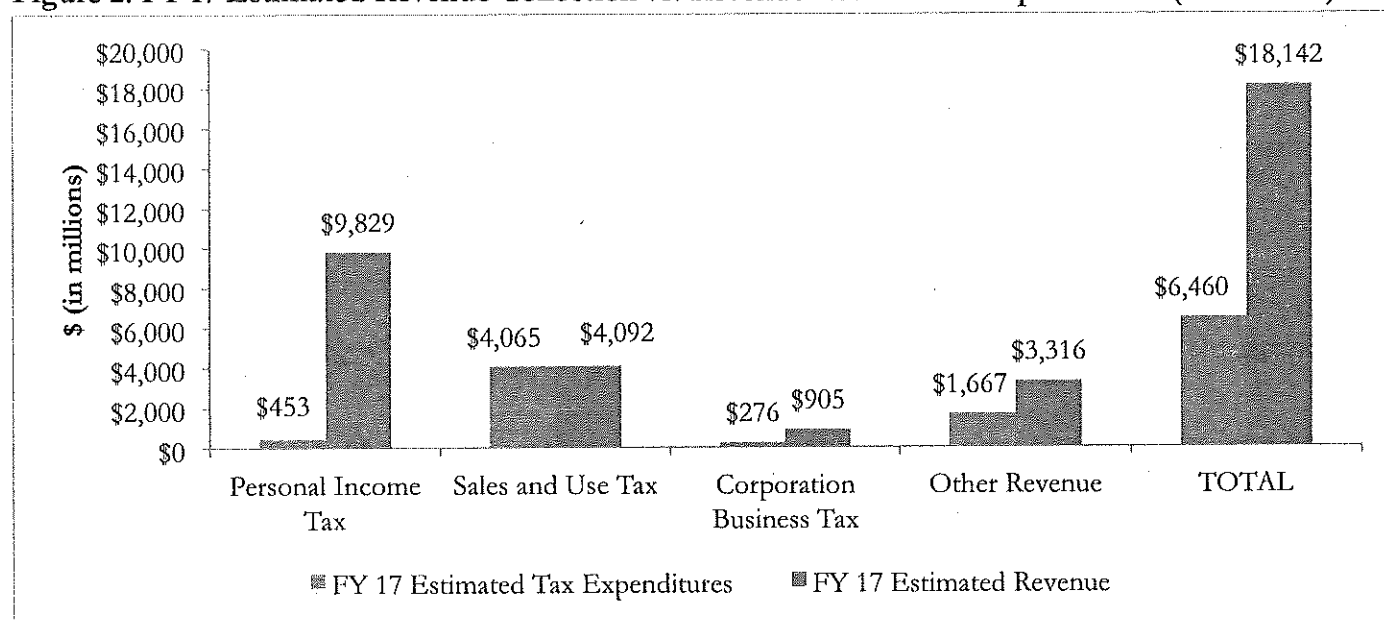
Second, we urge the working group to examine the revenue lost to tax expenditures — totaling over \$6.4 billion in FY 2017 — and consider possible solutions. Tax expenditures include exemptions in the sales tax, lower rates for certain corporations, and personal income tax deductions. They are akin to spending in that they cost the state money it would otherwise collect, lead to higher taxation or lower spending elsewhere in the budget, and can be used to achieve policy objectives.

Despite these similarities, tax expenditures are not subject to the appropriations process that dictates — each and every year — precisely how state funds will be spent. Thus, tax expenditures — which in the coming fiscal year are estimated to amount to over \$6.4 billion — persist year after year with *minimal* review as to whether they

¹ For more information on the Children's Budget, visit our interactive Tableau charts at: <http://www.ctvoices.org/issue-areas/budget-and-tax-fiscal-policy-center/tracking-childrens-budget>

are addressing critical state needs in a cost-effective way. Figure 2 shows the scale of the revenue lost to tax expenditures compared to the revenue estimated for FY 17.

Figure 2: FY 17 Estimated Revenue Collection vs. Revenue Lost to Tax Expenditures (in millions)



Sources: Office of Fiscal Analysis 2016 Tax Expenditure Report, Governor's FY 17 Midterm Budget Proposal. "Other Revenue" includes the Cigarette Tax, Motor Fuels Tax, Health Provider Tax, and all other revenue sources.

If the purpose of the working group is to truly consider the growth in Connecticut's budget, then tax expenditures must also be considered. At present, tax expenditures are listed in a biennial report by the Office of Fiscal Analysis (OFA). In the "Connecticut Tax Expenditure Report,"² OFA describes each tax expenditure, the year it was enacted, its purpose, the estimated amount of revenue that would be gained if the expenditure were repealed, and the number of taxpayers benefitting. While the report provides useful detail, it does not offer *evaluation* – that is, an appraisal of how well the tax expenditures are functioning, the extent to which they are meeting their policy goals, and ultimately, whether each tax expenditure should be continued, modified, or repealed.

In addition, no policymakers are ever obligated to take action on the findings of the tax expenditure report. By statute, the Finance, Revenue and Bonding Committee is merely charged to "...meet to receive and analyze the report."³ While normal appropriations are subject annually to the rigor of public hearings, expert testimony, and legislative deliberation, \$6.4 billion in tax expenditures in the coming fiscal year are virtually ignored by the General Assembly. Not only does this process fail to hold tax expenditures accountable for the policy goals they were intended to achieve (such as economic development), it harms transparency in our budgeting process by effectively keeping this spending out of the public eye without opportunity to assess their opportunity costs.

We propose that the working group consider the following reforms to ensure spending via our tax code is held to a similar level of accountability as appropriated spending:

² For the most recent version, see: Office of Fiscal Analysis, "Connecticut Tax Expenditure Report," February 2016. https://www.cga.ct.gov/ofa/Documents/year/TER/2016TER-20160201_Tax%20Expenditure%20Report%20FY%2016.pdf
³ Public Act 97-316

Expand the Tax Expenditure Report. The biennial OFA Tax Expenditure report is an important step in promoting budget transparency. We recommend the report:

- **Evaluate the extent to which each tax expenditure is meeting its policy goal**, including considerations of administrative cost, distributional impact, evolving fiscal climate, and expected change over time.
- **Submit a recommendation to continue, modify, or repeal each tax expenditure**, based on how well each tax expenditure is meeting its policy goal.

Bolster the legislative review process. Currently, the General Assembly is not obligated to act on the findings of the tax expenditure report. Requiring policymakers to treat over \$6.4 billion in tax expenditures like normal appropriations will improve transparency and accountability.

- **Hold public hearings on the results of the Tax Expenditure Report**, so that taxpayers can weigh in on how public funds are used as they can during the regular appropriations process.
- **Require the General Assembly to vote on the recommendations of the tax expenditure report**, taking into account public testimony.

And finally, we urge the working group to adopt a budget framework of equity — that is, in a time of need, the state budget should aim first to help the most vulnerable among us.

With regards to our tax and budget system, two facts are clear. First, Connecticut's revenue structure — the sum total of our sales, property, income, and other taxes — is highly regressive, asking the most from those with the least. As the following chart from the Institute on Taxation and Economic Policy (ITEP) shows, households with incomes under \$25,000 pay an average of 11.0 percent of their income in total state taxes, compared to the top 1 percent of households (with incomes over \$1.331 million) who pay just 5.5 percent of their income in overall state taxes. This is fundamentally unfair for families at the lower end of the income ladder.

Figure 3: Connecticut Tax Incidence by Income Group

Income Group	Lowest	Second	Middle	Fourth	Top 20%		
	20%	20%	20%	20%	Next 15%	Next 4%	Top 1%
Income Range	Under \$25,000	\$25,000 – \$46,000	\$46,000 – \$76,000	\$76,000 – \$121,000	\$121,000 – \$294,000	\$294,000 – \$1,331,000	\$1,331,000 or more
Sales & Excise Taxes	6.8%	4.9%	3.8%	3.2%	2.2%	1.4%	0.8%
Property Taxes	5.3%	3.5%	4.8%	5.0%	4.2%	2.6%	1.2%
Income Taxes	-1.1%	1.1%	3.2%	4.0%	4.6%	5.4%	5.8%
Total Taxes	11.0%	9.5%	11.8%	12.1%	11.1%	9.5%	7.7%
Federal Deduction Offset	-0.0%	-0.3%	-0.9%	-1.4%	-1.8%	-1.7%	-2.2%
Overall Total	11.0%	9.2%	10.9%	10.7%	9.3%	7.8%	5.5%

Source: Institute on Taxation and Economic Policy

Second, we know that most government spending — on schools, health care, developmental services, and the like — helps to redress these disparities by working toward equitable outcomes for children and families. Unfortunately, budget cuts tend to fall heavily on these very services. While the Children's Budget comprises

less than a third of the General Fund, three-quarters of the cuts in the final budget for FY 2016 fell on programs benefitting children and families.⁴

In order to ensure Connecticut's future prosperity, we must foster the health, education, and wellbeing of the next generation today. That is why we believe the working group must adopt a lens of equity when considering budget trends. Our budget is a statement of our public values, and we must affirm that one of those values is pursuing equity by supporting the children and families among us with the least.

Thank you for your time. I would be happy to answer any questions.

Contact

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⁴ See: Defiesta, Nicholas, et al. "Impact of the Final FY 2016 Budget on Children and Families," August 2015. Accessible at www.ctvoices.org/sites/default/files/bud15fy16finalimpact.pdf